Ontario's Entertainment & Creative Cluster

A Framework for Growth

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Ontario

Prepared by
The Ministry of Tourism and Culture

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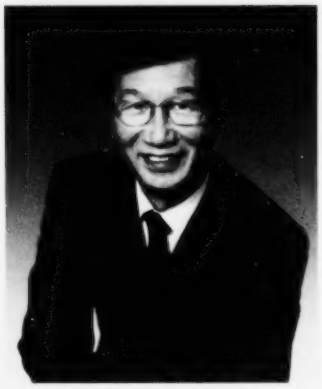
Foreword from the Minister of Tourism and Culture



The Ministry of Tourism and Culture is very pleased to present Ontario's Framework for the Entertainment and Creative Cluster – a document that lays out a vision for the continued growth and leadership of Ontario's cultural and other creative industries.

Over the last decade, the Creative Cluster has grown at a rate even faster than our overall economy. Between 1999 and 2007, Ontario's Creative Cluster job growth was double that of the rest of the economy - 38.3% compared with 17% in the overall Ontario economy.

Ontario cultural industry firms – including companies in the film, television, publishing, music, commercial theatre and interactive digital media industries – have always been leaders in the domestic entertainment industry; today many are reaching for – and finding – success in markets around the world. The province is recognized for its excellence in fields such as domestic television production, kids programming, animation, console video games and cross-platform programming. Companies like Corus Entertainment, Decode Entertainment, Silicon Knights, Shaftsbury Films and Xenophile Media are winning critical acclaim and expanding their international sales. Ontario's long tradition of publishing excellence is being extended into the digital world, with ventures such as Magazines Canada's launch of a digital magazine marketplace, while the eBook marketplace is providing an entirely new platform for the works of Ontario's legendary novelists and poets.

Our work on behalf of this fast-growing and culturally important Creative Cluster is a team effort, spread across a number of Ontario government ministries with a commitment to the knowledge-based economy of the future. I am grateful to the Ministries of Finance; Research and Innovation; Economic Development and Trade; and Training, Colleges and Universities, for their advice and collaboration in the development of this report.

The Creative Cluster's partners in government are working together, to continuously innovate in delivering the programs and services that have helped companies grow stronger and respond to their daily business challenges.

The Ministry of Tourism and Culture has been the partner and champion of the cultural and creative industries for many years. In 2006, the ministry recognized the maturity of this sector, and its growing economic importance in the digital age, by adopting a cluster-based approach to the development of these industries and forming partnerships across the Ontario government. This new document builds on this legacy and looks to the excellent opportunities, in Canada and around the world, that lie ahead for the Creative Cluster. We hope the industry – companies, trade organizations, post-secondary institutions, creator groups and the many other industries that form a rich value-chain in the Creative Cluster – will join us in the discussion, laying the foundation for the next wave of growth.

The Honourable Michael Chan
Minister of Tourism and Culture

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The Ministry would also like to thank the industry associations and our ministry partners who were consulted in the preparation of this report:

Ontario Media Development Corporation

FilmOntario

Organization of Book Publishers of Ontario

Interactive Ontario

Canadian Independent Music Association

Canadian Magazine Publishers Association

Toronto Alliance for the Performing Arts

Ministry of Finance

Ministry of Research and Innovation

Ministry of Economic Development and Trade

Ministry of Training, Colleges, and Universities

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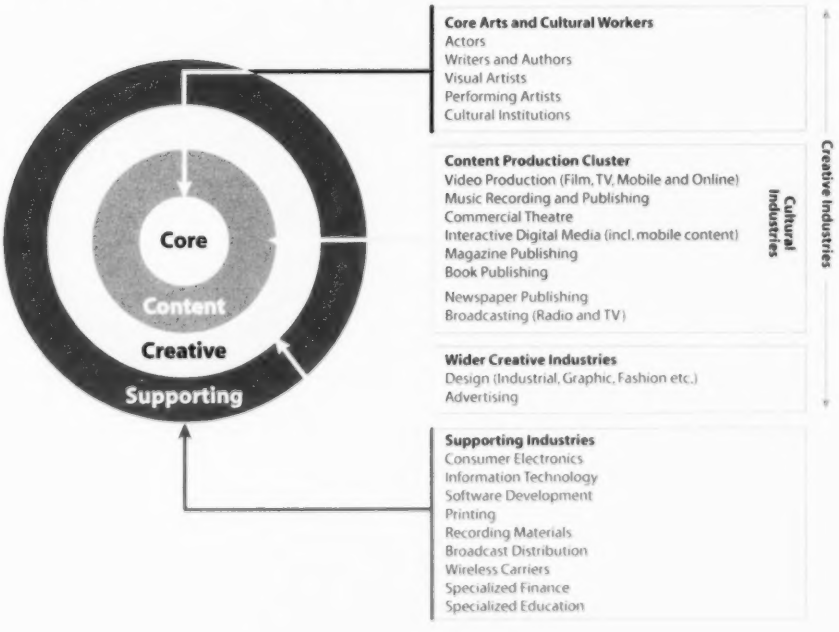
Introduction:
Ontario's Creative Cluster

The future of the entertainment media world is taking shape today. Ontario companies in the Creative Cluster are recognized around the world for their ability to entertain, inform and inspire people – on the screen, on the page, on the stage and in an exploding array of mobile digital devices.

Although many segments of the economy contain creative elements, the Creative Cluster is comprised of individuals and companies whose primary occupation is the creation, production and monetization of creative products. The Creative Cluster's broadest definition consists of all activities directly involved in the development and production of creative products and services. It also includes the supporting industries which enable the production and distribution of creative content. Figure 1 (below) provides a visual representation of the broad definition of the Creative Cluster:

FIGURE1: The Broader Creative Cluster

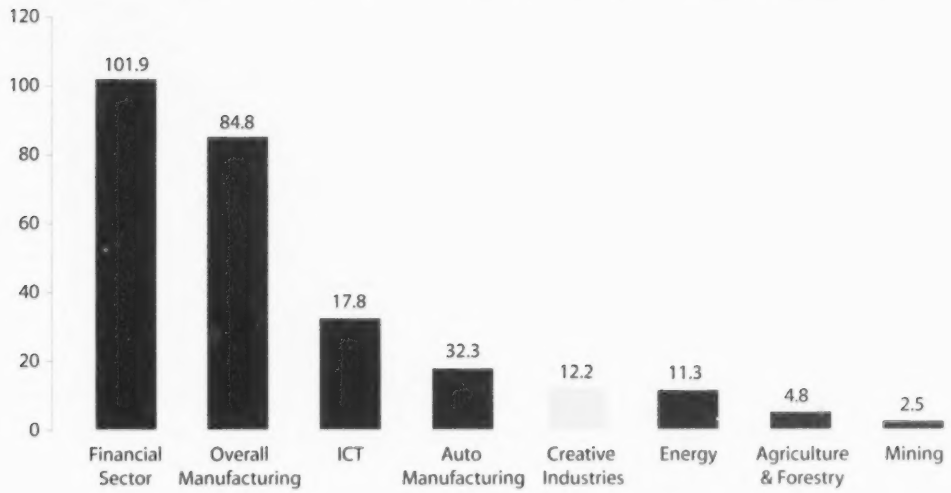


Ontario's Creative Cluster: Growing Faster than the Rest of the Economy

The global entertainment and media market was estimated to be worth more than US$1.35 trillion in 2008, and is forecast to grow to approximately US$1.6 trillion by 2013.[1] Creative industries now represent a significant proportion of many countries' GDPs, as economies around the world recognize the importance of the creative industries to their future economic growth. As the "knowledge" versus "industrial" economy continues to grow in importance across all developed and developing countries, creative industries are critical to the larger knowledge economy job creation engine, preparing workers for a digital future that relies on creativity versus physical work.[2]

During the first decade of this millennium, the Creative Cluster has emerged as a major – and growing – source of GDP for Ontario. The creative industries in Ontario generate $12.2 billion in GDP for Ontario's economy annually and are number one in Canada by GDP. Creative industry GDP is now larger than Ontario's energy industry, is approaching 70% of the auto manufacturing sector and surpasses those of agriculture, forestry and mining sectors combined.[3]

FIGURE 2: Selected Examples of Sectors and Their Share of Ontario GDP ($ billions 2006)

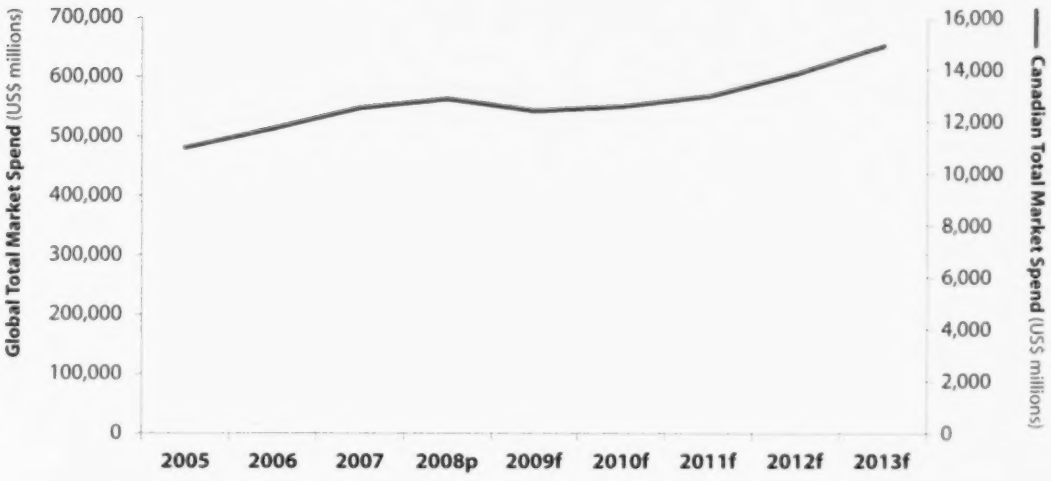


Source: Ministry of Finance analysis based on Statistics Canada data with dollars indexed to 1997.

Note: Sectors represented on chart are selective only; and some sectors overlap – e.g. auto manufacturing is a part of the overall manufacturing sector cited.

The Creative Cluster not only contributes to Ontario's economic, social and cultural well-being today, but it has the potential to grow at a significant pace in the near future. While projections for the six cultural industries are not available at a provincial level, we can look to global and Canadian figures to predict the potential growth of the broader creative industries. Figure 3 (below) compares the expected rate of global growth with that of Canada. It shows that far from being a mature industry experiencing slower growth, Canadian creative industries are forecast to grow at the same rate as the global sector.

FIGURE 3: Growth of Selected Global and Canadian Creative Industries (Total Market Spend, US$ millions)



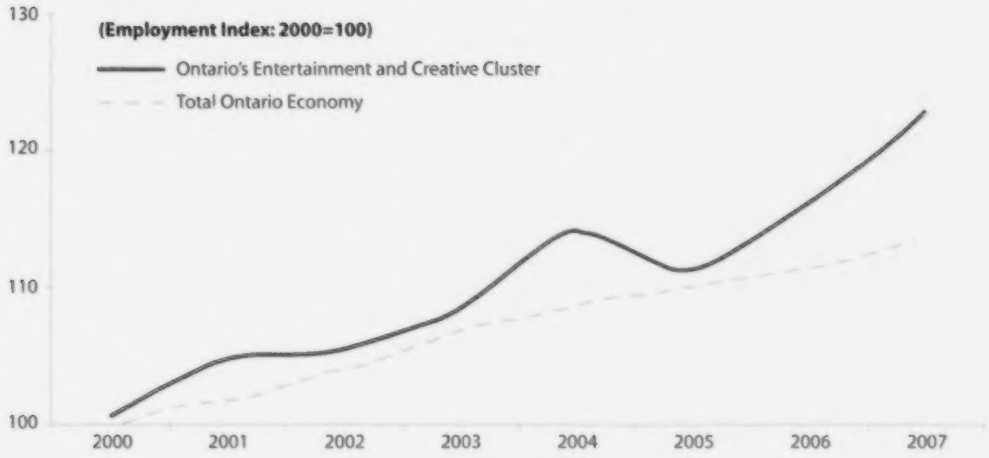
Source: PricewaterhouseCoopers, Global Entertainment and Media Outlook 2009-2013

Note: This group of creative industries includes the following sectors: recorded music, TV advertising, video games, filmed entertainment revenues (incl. box offices), book publishing, consumer magazines, and Internet (wired and mobile) advertising, which is used to indicate the rapid growth of Internet and mobile content.

Ontario is among North America's top entertainment and media economies, ranking third in employment (behind California and New York).[4] It is among the world's highest revenue-generating Creative Clusters, and has the potential to rise above its current status at the top of the 'second tier' of media economies[5] to join the ranks of Paris, London and New York as a top-tier entertainment and media economy.

While sustainable growth for any industry is contingent on a number of factors, evidence suggests that Canada's and Ontario's creative industries are growing faster than the rest of the economy. Approximately 1.1 million Canadians are estimated to owe their jobs (directly or indirectly) to creative industries, which represented roughly 7.1% of Canada's total workforce in 2007.[6] Between 1999 and 2007, Ontario's Creative Cluster job growth was double that of the rest of the economy - 38.3% compared with 17% in the overall Ontario economy.[7]

FIGURE 4: Ontario Employment Trends



Sources: Statistics Canada Labour Force Survey and Ontario Ministry of Finance, reproduced from 2008 Ontario Budget Papers p. 25

Recent years have marked a changing and more challenging economic landscape for Ontario. The economy showed no real growth as 2008 ended; growth is forecast at just 0.7% in 2009,[8] and Ontario shed some 36,000 manufacturing jobs in January alone.[9] However, Ontario's Creative Cluster growth continues to outpace the rest of Ontario's economy. As Ontario's economy continues to transition, creativity will be increasingly tied to the province's ability to compete for growing global markets.

Ontario has Across-the-Board Strength in all Cultural Industries

While the general term 'Creative Cluster' encompasses the broader creative and supporting industries, this framework focuses on the six cultural industries in Ontario, including film and television production, music, book publishing, magazine publishing, interactive digital media and commercial theatre. These six cultural industries are a subset of the 'content production cluster' in Figure 1.

Companies in these six cultural industries develop, produce and market products whose value resides in their intellectual property (IP) rights. Although cultural industries have historically operated in silos, convergence and interaction has been growing, as new digital platforms act as common denominators for both the production and delivery of cultural products.

Unique among many world jurisdictions in the entertainment industry, Ontario's Creative Cluster blends together a legacy of excellence and expertise across all cultural industries.

The **music industry** in Ontario is currently undergoing a period of transformation. As traditional sources of revenue decline (i.e. physical record sales) new sources are beginning to emerge. The music industry, which has perhaps the longest history of digital distribution, is beginning to harness digital media (Internet and mobile) as a viable means of generating income. In this context, the music industry in Ontario is looking to licensing, live performances, merchandizing and other revenue streams to account for gaps in revenue.

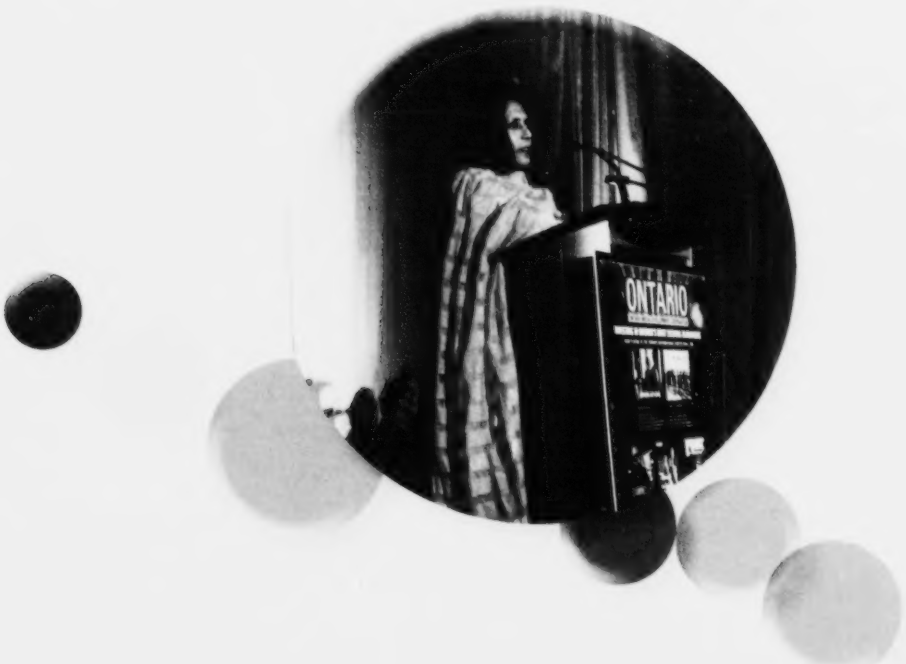
Although not as dramatically as the music industry, Ontario's **book publishing industry** is undergoing significant changes as it adopts digital technologies. Traditional markets and business models continue to generate the lion's share of revenues (and are slowly growing), but online and digital technologies are retooling all elements of the book publishing value chain. Coping with changes that require substantial investment (including recruiting new skill sets) is proving difficult for Ontario publishers who are constantly struggling for financial resources. If Ontario publishers can successfully emerge from this transition, they will remain one of the most competitive English-language book publishing industries in the world.

The **interactive digital media (IDM) industry** in Ontario is characterized by near constant change, primarily towards "lighter" platforms (i.e. mobile and other handheld devices) and the emerging middleware market (e.g. physics engines for videogames, or software "porting" tools). The 2008 Canadian Interactive Industry Profile identified between 950 and 1,050 IDM companies in Ontario, directly employing more than 16,000 people and generating between $1.3 billion and $1.5 billion in gross annual revenue. Video game design and development is the key driver of Ontario's IDM revenues, with 39.2% of the province's share coming from this sector. The broader Entertainment/Arts category of IDM activities (including video games as well as the creation of cross-platform entertainment products) amounts to 45.5% of total IDM activity. 9.6% of revenues come from work in simulations and interactive training, with a further 8% coming directly from software design and development.

Ontario's **film and TV production industry** has been fairly stable over the past few years, with gains in domestic production occurring at a faster rate than the growth of foreign service production. While film and TV production volumes vary from year to year, they tend to be cyclical. In recent years, variances have occurred against a backdrop of significant changes in the broadcasting industry overall, as well as in the market for certain genres of production, such as scripted drama. Ontario has been actively engaged in maintaining the competitiveness of this industry through enhancements to our film and television tax credit environment.

Ontario's **magazine publishing industry** is one of the most stable elements of the Creative Cluster. It has a large domestic market share and a relatively strong financial balance sheet. This success is due in part to the ability of this sector to leverage a highly skilled workforce to meet the needs of many diverse niche markets. That said, with more content moving online, previously inaccessible foreign publications are becoming available to Canadian readers, intensifying the level of competition facing Ontario magazine publishers. Low levels of profitability are also hampering the efforts of Ontario publishers to adapt to the changing digital landscape.

Most theatres in Ontario are not-for-profit playhouses although they depend substantially on the commercial revenues from ticket sales. Meanwhile, roughly 80% of the industry's revenue base comes from larger **commercial theatres** like Mirvish Productions and Dancap Productions.[10] The industry is centred in Toronto, Niagara-on-the-Lake and Stratford; these locations rely in large part upon cultural tourism to support audiences. The sector is, therefore, sensitive to fluctuations in tourism (e.g. resulting from a high Canadian dollar or a slumping U.S. economy). Despite this challenge, Toronto theatres have grown in terms of revenues since 2006.[11]



Ontario's Creative Cluster: Common Features and Challenges to Continued Growth

Each Creative Cluster industry has unique business models, creative drivers, distribution chains and global trends which bear on their competitiveness. However, the industries within the Creative Cluster also share a number of common features, including:

- The **changing corporate structure of the Creative Cluster** – In recent years, consolidation and vertical integration within the various industries in the Creative Cluster have had a significant impact, particularly among anchor companies within and surrounding the creative industries (e.g. broadcasters, distributors, retailers);[12]

- The **financial sustainability of companies** – Creative Cluster firms can be poorly financed and are often not particularly profitable. Without healthy profit margins and access to capital, it is difficult to make the necessary investments to innovate, retain upwardly mobile staff or expand internationally;

- The **presence of large buyers and/or distributors** – Creative Cluster firms tend to be small or medium in size, and so are not often in a position to benefit from the presence of large customers or distributors owing to their relative lack of bargaining clout;

- **Human resources** – Creative Cluster firms generally have a good supply of entry-level workers. However, many face challenges in retaining staff or attracting high quality technical, creative or management personnel from other jurisdictions.

These common features translate into a set of common challenges to the continued growth of the Creative Cluster in Ontario.

Challenge 1: Increasing Global Competition

One of the most significant challenges is the rise of global competitors from emerging and advanced economies. At least 100 global economies are vying for leadership in the creative industries as nations, regions and cities realize the important economic and social rewards of establishing footholds in this valuable sector. Jurisdictions worldwide are competing for buyers, production contracts, talent, and investments. The proliferation of film tax credits and other incentives by american states and other provinces is a major indication of this trend – with many now highly competitive with our own. At the same time, Ontario must compete with increasingly sophisticated emerging economies that see the value in providing low-cost services not only for their own creative industries, but increasingly for the global marketplace. The outsourcing of animation or visual effects elements of film production to jurisdictions like India, China and South Korea offers an example of this type of competition.

Challenge 2: Financial Structure and Business Sustainability

To effectively compete, Ontario has to develop healthy financial structures and business sustainability within the Creative Cluster. As Canada's financial centre, Ontario is home to a large private investment community, but one that has yet to fully identify and develop investment opportunities in the Creative Cluster. Increased competition within the Creative Cluster has lent itself to ever-thinning profit margins; this lack of growth capital is having a profound impact on Creative Cluster companies.

Challenge 3: Risk of Falling Behind Other Jurisdictions in Innovation

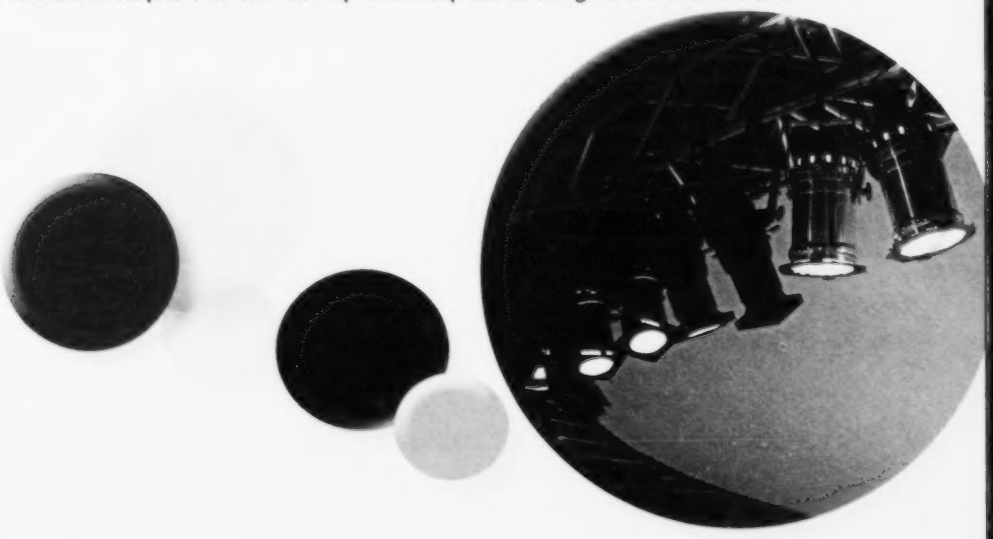
A company's competitive advantage or market penetration can shift within months as new standards replace old, or as consumers vote for new accessories or platforms with their dollars. Creative Cluster innovation does not solely reside within the domain of content or pure technology, but rather, resonates across the derivative domains of business models, business and production process, management, entrepreneurship and particularly, corporate and product finance.

Challenge 4: Rapid Technological Change

Technological change and its associated market disruptions create opportunity, but also introduce significant challenges. This is particularly true for some traditional cultural industries, as they need to invest to keep up with the latest trends, business processes and efficiencies. As with the challenge and risk of not keeping up with general innovation, the risk of not keeping up with technological change can be difficult for any company not sufficiently funded to bear the full loss of one or several product lines and/or the cost to build entirely new lines based on new technology platforms or IP.

Challenge 5: "Resting On Our Laurels"

The reality is that much of the world is working on improving the performance of their own Creative Clusters. To sit still is to lose ground, which would be a mistake, given how far Ontario has come. This would be particularly unfortunate given the current alignment of Ontario's assets and accomplishments which are in place to enable the province to move up to the top tier of the global Creative Clusters.



The World is Changing: Opportunities for Ontario in New and Emerging Markets

Growth in the global entertainment and media market has led to increased export opportunities for Ontario's Creative Cluster (e.g. as emerging economies begin to spend more on entertainment products), but has also heightened the competition (e.g. as these same emerging economies start to develop their own Creative Clusters).

Other countries and regions have recognized that Creative Clusters represent a good investment for future economic growth, and are aligning government support to stimulate this growth, gain global prominence and attract future investment and talent. Ontario's competitors rely on both quality of product and competitive pricing of that product. The U.S. entertainment industry remains the traditional global leader. However, small countries (e.g. Iceland and Finland) are also exporting their creative products, and – along with larger economies in every region of the world – are working to attract talent and investment. Ontario has also developed a leading role as a cost-competitive service provider to other Creative Clusters, such as Hollywood, but intensifying competition from other service jurisdictions is placing increased stress on this position.

Over the past couple of decades, Ontario cultural industries have proven to be leaders in international sales and strong partners for co-production and distribution world-wide. This record forms a solid base from which to approach the current situation, in which the market for creative products and services is becoming increasingly globalized. Established markets (e.g. UK and France) as well as new and emerging markets (e.g. India and China) represent significant opportunities for companies with good quality and high value-for-money products and services.

BOX 1: CASE STUDY OF ARTS + CRAFTS RECORDS

Founded in 2002, Arts + Crafts is an Ontario-based independent record label, management company and music publisher. Arts + Crafts has a talent pool including such internationally successful artists as Feist, Stars, Constantines, The Dears and The Stills. The company offers a 50-50 revenue sharing scheme to artists, which is significantly more competitive than the industry standard. The sense of community among the artists has served as a catalyst for collaboration and as encouragement for artists to pursue their creative interests. Arts + Crafts has found its niche in the cinematic market with music that has been featured in a host of soundtracks, including The O.C., Falcon Beach, and The Comeback Season.

The company demonstrates how an artist-owned label can be successful domestically but also expand and distribute globally. In January 2006, Arts + Crafts opened an office in Europe (in a partnership with City Slang Records) thereby enabling Canadian independent artists to distribute their records in the UK, Germany, Austria and Netherlands. Similarly, in October 2008, Arts + Crafts opened an office in Mexico City where they plan to distribute their own artists while also tapping into the talent pool in Mexico and South America.

Positioning Ontario to Take Advantage of the Global Opportunity

The demand for high-quality content and affordable, highest-quality production is predicted to drive the global entertainment and media market to all time highs. Ontario's Creative Cluster is well poised to take advantage of the growing global entertainment and media market, as well as realize a Canadian opportunity projected to grow to over $20 billion by 2012. [13]

Through a series of recent policy and program announcements, the Government of Ontario has signalled its intention to dramatically accelerate innovation and knowledge-intensive industries to ensure future prosperity.

Ministry of Tourism and Culture partners and agencies have been working to foster economic stimulus through a wide range of inter-ministerial activities, which reflect or reinforce the province's Open Ontario plan – a new vision, introduced in 2010, to expand Ontario's prosperity by engaging with the world and seeking new solutions to issues that impede Ontario's growth. The Open Ontario plan calls for expanded educational achievement, expanded infrastructure and development of the Ontario financial services market as a global leader. Many of the themes envisioned by the Open Ontario plan match the potential of the Creative Cluster to contribute an even greater share of provincial GDP, driven by world-class talent and private-sector investment.

Support of the Creative Cluster also links closely with the Ontario Innovation Agenda, a plan introduced in 2008 to seize the many global opportunities for economic growth by making the most of the research and innovation talent that rests with Ontario companies and institutions. The Agenda seeks to extract more value from the province's investment in its world-leading research institutions, attract and retain the best talent and accelerate the commercialization of new discoveries. Its goal includes developing a workforce with first-rate skills in creative arts and stimulating private investment in knowledge-based companies. New content production is the fundamental form innovation takes in the Creative Cluster; however, technological innovation is also a core element in the Creative Cluster (see Box 2). Digital media content creators, as well as other content producers in the Creative Cluster, have already formed closer links with colleges and universities to experiment with – and develop marketable products from – exciting new technologies like 3D film and television and advanced motion-capture technologies.

Through the province's Entertainment and Creative Cluster Partnerships Fund, more than $12 million has been invested since 2007 in "outside-the-box" thinking – new partnerships and collaborations to develop new ways of creating products, reaching audiences and doing business.

BOX 2: THE MEANING AND IMPORTANCE OF INNOVATION TO THE CREATIVE CLUSTER

While innovation has traditionally been thought of as activities more closely linked to science and technology, there is growing recognition of its applicability to the Creative Cluster. According to one accepted definition:

"Innovation may be considered as the transformation of an idea into a new or improved product introduced on the market, into a new or improved operational process used in industry and commerce, or into a new approach to a social service."[14]

Art is creative, and the creation of any new music, TV, magazine product or any other piece of intellectual property is inherently a creative act that introduces a new product to the market. The development of new creative products or "right-brain" innovation is the core production process of creative industries. Rapid technological developments have created a complementary emphasis on "left-brain" or technological innovation. While innovation has never been absent from the Creative Cluster, its effect as a key driver, both within and across all cultural sectors, is now being felt as never before.

The rapid development of new creative products and ground-breaking innovations can have a very substantial effect on the economy. An environment that actively promotes and fosters innovation will attract talent and capital, and will grow faster than one where old ways persevere.

Because of the disrupting influence of digital technologies, the level of innovation in the Creative Cluster has risen significantly. Cultural industries are expanding the pace of innovation, as formats, distribution platforms and business models are continually evolving in response to the new opportunities. As the future of the Creative Cluster unfolds, closer collaboration with post-secondary institutions, researchers and partners throughout the Creative Cluster's value chain will be more important than ever.

Ontario Investments Driving Innovation and Creative Cluster Growth

Past performance has shown that the Creative Cluster is responsive to government investments and support services targeted to key needs – from tax credits, to support for attending international marketing events, to flexible early-stage financing – as these early investments have yielded tangible results. The Ontario Production Services Tax Credit (OPSTC), for example, is credited with establishing Ontario as a globally recognized centre of excellence for film and television service production.

The economic potential and complexity of the Creative Cluster industries has given rise to a range of supportive initiatives. Initiatives cut across several ministries, in addition to the work of the lead program delivery agency, the Ontario Media Development Corporation (OMDC). Ministries providing direct support to the Creative Cluster, or otherwise engaged with it on a policy basis, include:

- Ministry of Tourism and Culture
- Ministry of Economic Development and Trade
- Ministry of Finance
- Ministry of Research and Innovation
- Ministry of Training, Colleges and Universities
- Ministry of Citizenship and Immigration

The OMDC, an agency of the Ministry of Tourism and Culture, is focused on the growth and well-being of the cultural industries within Ontario's Creative Cluster. The OMDC certifies eligible activities for the provincial tax credit programs and delivers funding programs and services to the cultural industries. It also assists in the promotion and marketing of Ontario's cultural industries as world-class global leaders in domestic and foreign markets. The agency's activities in this area support both export of Ontario products and services to the nation and the world, and inbound investment in the form of production services assistance.

The Ontario government recognizes the need to keep pace with competition and its commitment to the cultural industries has been reinforced through a series of significant investments in the OMDC

Table 1 below gives an overview of the key support programs currently offered to Ontario-based cultural industry companies. These programs tend to be project-based and sector specific. At the same time, support is relatively balanced between development, production and marketing/distribution. Table 2 provides some examples of innovative new partnership projects funded through the Ministry of Tourism and Culture's Entertainment and Creative Cluster Partnership Fund.

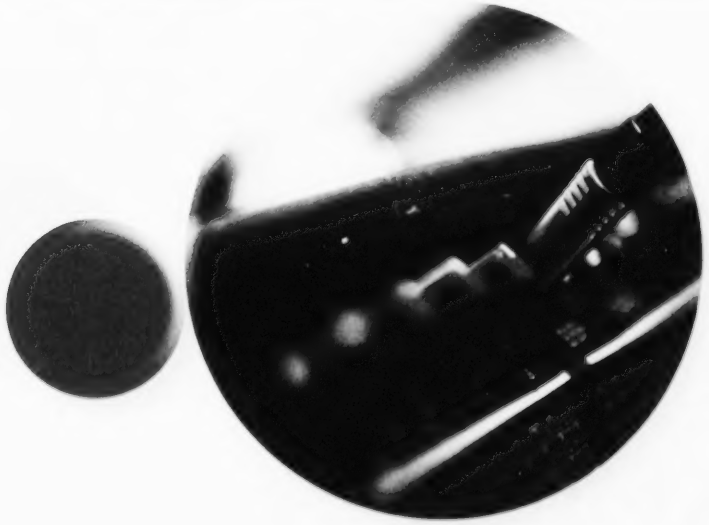
TABLE 1: Summary of Key Support Programs and Initiatives

Program/Incentive	Industries						Value Chain Element Targeted
	Film	TV	Music	Books	Magazines	IDM	
Tax Credits	✓	✓	✓	✓		✓	Production (books and music include distribution and marketing)
OMDC Content and Marketing Funds	✓		✓	✓	✓	✓	Production and Marketing/ Distribution
OMDC Export Fund	✓	✓	✓	✓		✓	Marketing/Distribution
The Entertainment and Creative Cluster Partnership Fund	✓	✓	✓	✓	✓	✓	Development and Production
Intellectual Property Fund	✓	✓				✓	Development
Next Generation of Jobs						✓	Development and Production
Emerging Technologies Fund						✓	Corporate Development

TABLE 2: Examples of 2009/10 Investments through the Entertainment and Creative Cluster Partnership Fund

Project	Description
Ontario Digital Games Business Incubator Network	Creates a network of business incubators and related institutions serving the digital games development community in Ontario
Canadian Publishers Digital Services Implementation Project (CPDS)	A suite of services being offered by the Association of Canadian Publishers that will help publishers maximize the fast emerging opportunities presented by digitization technology and build their capacity to flourish and thrive in the quickly changing digital marketplace
Virtual Music Export Office	Increases agility in the cluster and responds to major shifts in creation, distribution and delivery systems
CASO Web Based Development Tools aka "CASO Cluster Hub"	A suite of web-based social networking and marketing tools that that will: strengthen links between CASO members; improve CASO member outreach and recruitment; and provide a centralized marketing platform for new business and employment opportunities
DOCShift: Real Stories to Multiple Platforms	Creates business opportunities for Ontario filmmakers and new media producers by facilitating the merger of skill sets and innovative interactive documentary genres
X3 Source	Unites the very best music news, interviews, videos and more from multiple publishing partners into an online resource that travels with you as you browse your favourite music websites and blogs
The Interactive Narratives Initiatives	Introduces a new media architecture featuring an adaptive nature that can change the users' experiences on the fly during the playback of audiovisual content
DOC DigiMarket Initiative Phase Two	Provides Ontario documentary producers and filmmakers with new incubation and financing opportunities for cross-platform content, as well as digital marketing and distribution training and resources
International Visitors Programme	Builds on and expands the International Visitors (IV) Programme at the annual International Festival of Authors in October to create new international networking and business opportunities for Ontario publishers

Project	Description
Canadian Magazines International (CMI)	Connects Canadian magazine leaders with key international magazine publishing innovators and decision-makers from around the world and profiles Canadian magazine publishing leaders in a semi-annual professional magazine (print and digital)
NXNEi	A new event for digital creators, tech entrepreneurs and new media producers at the NXNE Festival and Conference focused on integrating musicians and the music industry with the interactive world
Ontario: Read It Here	Promotes Ontario literature, locales and literary events to the widest possible audience, on site and online
Fast Forward to a Digital Future - Education and Training for Ontario Animation	Trains industry professionals in a broader range of animation and business skills so they can fully contribute to the long-term growth of Ontario's entertainment and creative cluster
2020 Media Futures	A multi-industry strategic foresight project designed to understand and envision what media may look like by 2020
Designing Digital Media for the Internet of Things (DDiMIT)	Develops a physical space and tools for hands-on workshops, collaborations and showcase events as well as a virtual space for disseminating the work of local media companies
3D FLIC (3D Film Innovation Consortium)	Creates a model for applied research and development that will expand the capacity for stereoscopic 3D cinema production in Ontario



BOX 3: EXAMPLES OF RECENT INNOVATIVE PARTNER MINISTRY PROGRAMS

FINANCE

- *Recently enhanced Ontario's six cultural industries' tax credits, ensuring that programs remain competitive against competing jurisdictions.*

- *Introduced the Ontario Tax Exemption for Commercialization, which provides a 10-year tax exemption for companies created to commercialize R&D carried out in Ontario institutions.*

RESEARCH AND INNOVATION

- *$5 million investment in the commercialization activities of the MaRS Discovery District, a major R&D catalyst that is engaged with digital media and the creative industries.*

- *Invested in new research and educational infrastructure, including investment in the new Digital Media Institute at Stratford and the digital vision for the Ontario College of Art and Design.*

- *Introduced the $90 million Ontario Venture Capital Fund, to match private sector investment and increase the level of venture capacity activity in the province with the guidance of professional venture capitalists.*

- *Created the Emerging Technologies Fund, which will provide $50 million a year over five years to co-invest in companies in three high-potential sectors – including digital media and information and communications technology.*

ECONOMIC DEVELOPMENT AND TRADE

- *In partnership with the Ministry of Research and Innovation, created the $1.5 billion Next Generation of Jobs Fund, with streams for investment attraction and strategic sectoral development. These initiatives cited the Creative Cluster (and digital media in particular) as key elements of future growth. Investments in the Creative Cluster have attracted anchor companies to the province, like Ubisoft Entertainment and Starz Animation.*

- *Accelerates international investment and marketing promotion (e.g. trade missions, videogame marketplace supports, etc.)*

TRAINING, COLLEGES AND UNIVERSITIES

- *Responded to the changing economy with the $2 billion Skills to Jobs Action Plan, which includes re-training, to help workers from sunset industries start second careers.*

Ontario's Unique Value Proposition

This long legacy of both federal and provincial government support for cultural industries has created in Ontario a very strong foundation across the spectrum of cultural industries. As a result, the province is well-positioned to capitalize on global opportunities in these industries.

Traditionally, a part of Ontario's Creative Cluster's value proposition has been that of a low-cost, high skills service provider. If Ontario is to compete effectively on the international stage, it must move beyond this original value proposition to that of an adaptable, innovative, high-value jurisdiction that is also cost-competitive.

Achieving this value proposition is possible as we examine Ontario's key competitive advantages:

- Proven ability to produce high-quality, cost-effective creative products
- Wide breadth and strength across all of the cultural industries
- Strength in enabling industries such as broadcasting, design and information and communication technologies.

In addition to the strengths Ontario's Creative Cluster offers, the province has its own demographics that can further bolster Ontario's unique value:

- **A diverse population:** With citizens from over 200 countries, speaking 130 languages, Ontario is the most multicultural province in Canada, and is home to the most diverse city in the world - Toronto.
- **A varied ecology of companies:** Ontario's Creative Cluster is composed of a varied and diverse ecosystem of companies, including a large number of small- and medium-sized businesses and a scattering of medium to large anchor firms. Small start-up companies commonly make great strides in technical and business model innovations, while larger businesses are often able to open markets and distribution channels and can take advantage of opportunities requiring more investment.
- **World-class training and post secondary training systems:** Ontario produces world-class animators, digital game creators and other innovators and attracts non-Ontarians who want to train in these fields.

Drawing upon its natural strengths, Ontario's Creative Cluster is in a position to promote a new unique value proposition that balances cost-reduction (e.g. tax credits) with value-added, high-quality products. With such a wide range of competencies, Ontario's Creative Cluster is in an enviable position, able to access and exploit a broad range of market opportunities as they emerge.

BOX 4: CASE STUDY OF LITTLE MOSQUE ON THE PRAIRIE

Heading into its fourth season, WestWind Production's TV series, Little Mosque on the Prairie, is an example of the international appeal of Canada's sensitivity to religion, race and ethnicity. The show's cast of Muslim and non-Muslim characters create a humorous contrast between modern cosmopolitanism and an exaggerated sense of small-town bigotry.

After drawing a domestic audience of 2.1 million viewers during its premiere in 2007 and 1.2 million for the season, the show's producers have signed deals across the globe including France (Canal Plus); Turkey (Kanal); Israel (Stars 3); and francophone African countries (Canal+Group), among others. In June of 2008, 20th Century Fox bought the format rights for the American market.

Growing the Creative Cluster in Ontario: Current Opportunities

Ontario's Creative Cluster has a significant opportunity to increase its share of a large and growing global market. Ontario's Creative Cluster has the potential to ascend to the top tier of global leadership across the creative industries. The Creative Cluster could also represent a critical pivot point that could leverage the Ontario economy out of the recent economic downturn and into the next emerging economy – the knowledge economy.

Two particular areas have emerged as specific opportunities for Ontario to accelerate growth within the Creative Cluster and across the wider provincial economy.

They are listed below:

FIGURE 5: Opportunities for Ontario

Digital Media: Changing the Game

Digital media is not necessarily a discrete product line or product category, but rather accounts for many activities related to the digital distribution and potential monetization of content. While currently representing only about 5% of global entertainment and creative industries, it is an important segment of all creative industries – and is by far the fastest-growing. As with software development, it is high-value with respect to potential profit margins.

Global digital and mobile revenues totalled about $65 billion in 2006. By 2008, the same industry is projected to have generated over $111 billion in global revenues – nearly doubling in size.[15]

This growth is in large part due to the movement towards 'digital transition' – the migration of analog industries, such as publishing, production and television, to digital distribution and asset management.

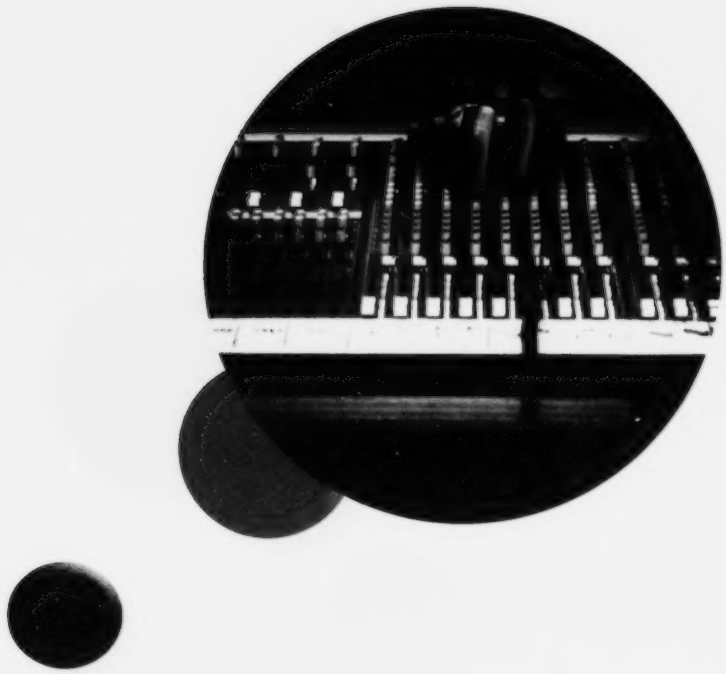
It also represents the rise of entirely new forms of content, with associated opportunities, such as Consumer-Generated Media (CGM), Massively Multi-Player Online Games (MMPOG) and Social Media (e.g. Facebook apps, Twitter, etc.). Our Creative Cluster's most significant disruptions, growth and opportunity are expected to occur on the newer platforms: mainly video game consoles, mobile and the Internet, particularly as existing franchises are migrated to new digital sales channels. Interactive digital media is a market Ontario's Creative Cluster must address strategically if it is to remain competitive.

BOX 5: CASE STUDY OF NGEN

nGen is a "new media incubator" – a business generator and capacity builder in the interactive media sector located in St. Catharines in the Niagara Region. Building on the success of gaming developer Silicon Knights and strengthening the existing industry linkages, nGen has a mandate to help the region stimulate the interactive media industry, retain talent and create as well as exploit intellectual property.

OMDC's Entertainment and Creative Cluster Partnership Fund has been a key source of nGen's funding, allocating $245,000 to the project in 2007. nGen has shored up its start-up costs, estimated to be $560,000, with contributions from St. Catharines taxpayers and the company's partners.

The project's seven partners include: Brock University, Niagara College, City of St. Catharines, the Niagara Economic Development Corp., Niagara Enterprise Agency, Interactive Ontario and the Silicon Knights gaming company. nGen capitalizes on these linkages by developing collaborative projects including a mobile phone game of the War of 1812 and "Noise in Niagara", a website and music magazine that allows local musicians to promote their gigs and journalism students to contribute reviews.



Continuous Improvement

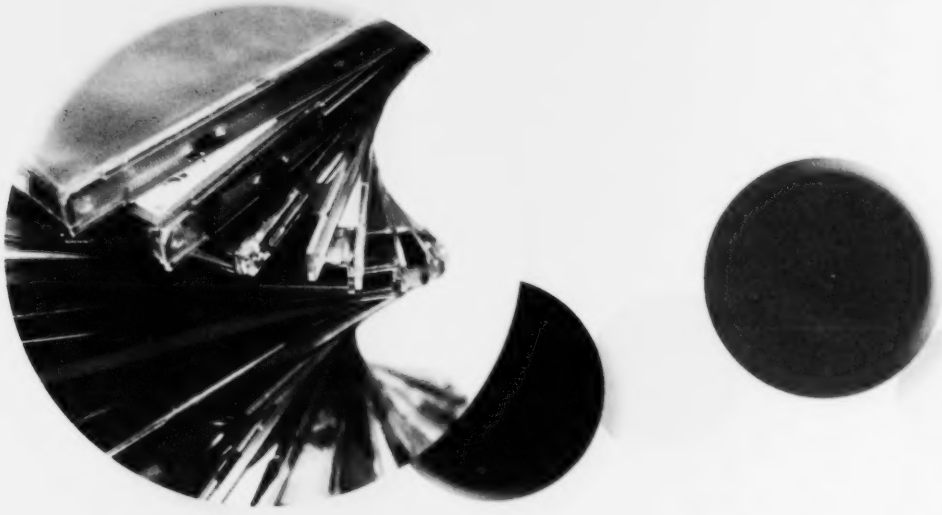
New growth areas, such as digital media, should not detract from the need to continue developing Ontario's traditional cultural industries. Ontario's Creative Cluster has strength across all cultural industries, a core attribute which most other jurisdictions lack. Traditional cultural industries, such as film, television, music, theatre and publishing, represent a major share of Ontario's Creative Cluster GDP; they have products and core competencies that can provide content for digital media, as well as being profitable activities in their own right. There are three specific means by which creative industries can be improved:

- Development of advanced support infrastructure (i.e. physical, institutional and financial)
- Expansion of domestic share
- Growth of export markets

These core activities have been central to the Creative Cluster's past success, and will continue to account for a significant share of the Creative Cluster's GDP contribution for the foreseeable future.

Ontario's cultural industries must continue to improve the quality and efficiency of their current activities, associated production, processes, core competencies, skills, staff and infrastructure. This focus is vital not only to their goals for global market penetration, but also in maintaining the success already achieved to date.

Continuous improvement encourages innovative firms to gain "first mover" advantage and penetrate new markets as they create new forms of content and new ways of monetizing that content.



Pathways to Opportunity: A Framework for Growth

A coordinated framework to support the growth of the Creative Cluster will allow Ontario to seize these opportunities – in digital media, traditional cultural industries and across all creative industries.

The following six pillars underpin this framework for action to build and strengthen the Cluster:

Pillar 1
Develop private investment and financing

Strengthen companies through improved access to capital to drive innovation, help them enter new markets and develop talent and leadership.

Ontario's creative industries have proven to be entrepreneurial in navigating the complex route to financing new projects. However, access to working capital, credit and equity is often limited for many companies in the Creative Cluster. Without investment capacity, creative industries will not be able to innovate and adopt digital technologies, let alone gear up their development agendas for conducting their traditional business in challenging times. The root causes of this lack of investment must be understood and addressed to facilitate investment in Creative Cluster companies and improve access to capital markets.

The following opportunities could provide creative industries in Ontario with the financial depth needed to invest in the next generation of world-leading products:

- Help firms become more "investor-ready"
- Improve access to equity investment
- Facilitate access to credit

Pillar 2
Develop a global presence and market expansion

Enable Ontario's Creative Cluster to make inroads into high-growth potential markets by providing Ontario firms with market intelligence and new ideas and by reinforcing success and innovation in domestic markets.

Ontario's Creative Cluster needs to advance its market presence at home and abroad in order to grow. Otherwise, its competitors, who are putting a priority on export market development, will stifle growth or even reduce Ontario's existing market share.

The challenge to compete internationally is two-fold: Ontario companies must have the financial capacity to make the necessary investments and Ontario's Creative Cluster must be recognized as an international centre of excellence. This challenge could be responded to by:

- Growing international networking and export capacity
- Developing a strong brand to communicate the unique value proposition of the Cluster

Pillar 3
Foster innovation and digital transition

Open new markets and improve access to existing markets through innovation, cost-competitiveness and higher quality products and services.

Ontario's Creative Cluster must focus on innovation and accelerate the rapid adoption of digital technologies in all aspects of the value chain. The following are the key elements of innovation as they affect the Creative Cluster in Ontario:

- Innovation at the firm or project level, including technological and business model innovation
- The adoption of digital technologies as part of the shift to digital production, distribution and promotions methods and in some cases transformation
- The need for collaboration mechanisms, particularly to leverage the province's strengths in design and ICT

Activities to support Ontario's value proposition should

- Drive innovation at the firm or project level
- Facilitate the adoption of digital technologies across the value chain
- Leverage Ontario's strength in ICT and design
- Encourage a modernized federal regulatory environment

Pillar 4
Develop a strong ecosystem

Leverage the potential power of a critical mass of small- to medium-sized entrepreneurial firms and supporting service firms, including some larger firms and anchor companies in appropriate industries.

Ontario's Creative Cluster needs to build on its rich ecology of companies and institutions – particularly buyers and distributors of the content produced from the works of Ontario's creators. If Ontario lacks major elements in this ecology, it will fail to generate the critical mass needed for leadership in the Creative Cluster.

Start-ups tend to inject new ideas, technologies and/or personnel into the marketplace. Stable medium-sized firms often develop new concepts, organize the financing and marketing of projects and manage the resulting IP assets. Large "anchor" companies can provide financing, market opportunities and distribution, and often creative support.

While Ontario has undeniable strengths in the Creative Cluster ecology, there remain gaps and weaknesses that impede it from taking full advantage of the opportunities available. Strategies to strengthen this pillar should include:

- Encouraging start-ups and early stage growth in the Creative Cluster
- Attracting, developing and leveraging the larger "anchor" companies

Pillar 5
Develop skills and leadership infrastructure

Equip the Creative Cluster with the leadership and skilled talent needed to build strong companies and to gain competitive advantage in increasingly global and dynamic markets.

Creative talent and leadership are among the most critical elements of a strong Creative Cluster. Developing and attracting talent that is capable of exploiting the commercial value of its creativity is crucial to ensuring the economic success of a Creative Cluster. In addition, the globalized and dynamic nature of the knowledge-based economy calls for a workforce that is flexible and capable of continuous retraining and upgrading as products, markets and demands shift constantly.

Ontario can establish the ideal skills and leadership infrastructure needed to capitalize on established and emerging market opportunities by:

- Growing business and entrepreneurship skills
- Focusing education and skills development on growing the Creative Cluster
- Taking advantage of our diverse population base
- Retaining and attracting the best talent

Pillar 6
Foster industry-government collaboration

Multiply and amplify the value of contributions from both sectors and effectively leverage government support.

A strong and effective partnership between industry and government at all levels is essential to developing a world-class Creative Cluster. While government and industry goals may not always align, industry's needs must be effectively communicated to government to enable it to act as a facilitator and advocate for conditions conducive to industry growth. This includes a clear expression of priorities and viable strategies from both industry and government.

In return, both industry and government must have the capacity to coordinate and deliver on the programs and initiatives needed to create positive conditions for the Creative Cluster. Coordination and communication will be essential to strengthen these relations.

The priorities under this pillar should address:

- Strengthening the capacity of industry associations
- Collaborating to grow domestic audiences for Ontario's cultural products
- Involving all relevant Ontario ministries in pursuing Creative Cluster opportunities

Specific Goals for Future Return on Investment

By establishing a new value proposition for Ontario's Creative Cluster and focusing on the six pillars proposed in this framework, Ontario can drive our world-class Creative Cluster to:

- Maintain or increase its growing contribution to Ontario and Canada's GDP
- Realize increased market share in global and domestic markets, particularly in and via digital media
- Increase innovation (as measurable by copyright and patents)
- Increase aggregate company and tax revenues, wages and company creation
- Maintain or increase rate of job creation within the Creative Cluster

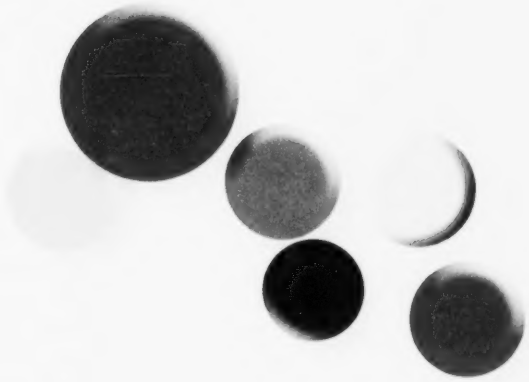
Ontario is Acting to Achieve this Vision

The Government of Ontario has introduced an ambitious stream of programs and policies that unlock the full potential and innovation of the Creative Cluster, including enhancements to most of the province's cultural industries tax credits, the introduction of the IP Development Fund and continued investment in the OMDC.

The Ministry of Tourism and Culture will work in partnership with stakeholders in the sector and our partner ministries, together with other levels of government, to support the pillars laid out in this report.

We will:

- Provide sustained funding for the OMDC, allowing the agency to set long-term plans and goals for each of the industries it serves, with particular emphasis on evolving its suite of programs to address digital transformation and the opportunities it brings
- Work with partner ministries and stakeholders to explore private-sector investment opportunities in Creative Cluster companies
- Carry out a robust research program to obtain actionable market and technological information to assist the Creative Cluster
- Enhance measurement of the Creative Cluster's market share and other key performance metrics to ensure programs and strategies are working
- Advocate with the federal government, on behalf of the content industries, for a modernized copyright regime and an effective national digital strategy



Conclusion

There is proven potential for the Creative Cluster, both as a whole and within individual industries. Ontario has a significant opportunity to increase its share of a large and growing global market. The Creative Cluster could also represent a critical pivot point that could leverage the Ontario economy out of the recent economic downturn and into the next emerging economy – the knowledge economy.

Managing economic development is an ever-changing art at the best of times, even more so in light of ongoing market disruption and increased international competition from other jurisdictions seeking new ways to further their own policies and stimulus initiatives. As the landscape for the Creative Cluster changes with unprecedented speed and regularity, policy innovation will be required to create new models for response.

Ontario's Creative Cluster companies have shown that their creative ability knows no bounds. Similarly, Ontario's pioneering programs have shown that the government has the ability to effectively foster the growth of key industries. Through continued innovation in investments, policies and programs focused on establishing a new value proposition and supporting the six pillars proposed in this framework, Ontario will be well-positioned to ensure the Creative Cluster capitalizes on the growing opportunities in the domestic and global entertainment and media marketplace.

Endnotes

1 PricewaterhouseCoopers LLP, Global Entertainment and Media Outlook 2009-2013.

2 http://www.martinprosperity.org/research-and-publications/publication/ontario-in-the-creative-age-project

3. Ibid

4. 2008 Ontario Budget Papers

5. Example 'second tier' media economies include San Francisco, Nashville, Miami and Stockholm.

6. Conference Board of Canada, "Valuing Culture: Measuring and Understanding Canada's Creative Economy," pp. 31 – 33.

7. Ontario Budget 2008, p. 25.

8. Ministry of Finance, 2008 Ontario Economic Outlook and Fiscal Review, Annex II: Economic Outlook.

9. http://toronto.ctv.ca/servlet/an/local/CTVNews/20090207/creative_economy_090207/20090207?hub=TorontoNewHome

10. The Strategic Council, A Presentation to the Toronto Alliance for the Performing Arts: Members Survey December 2007, page 21.

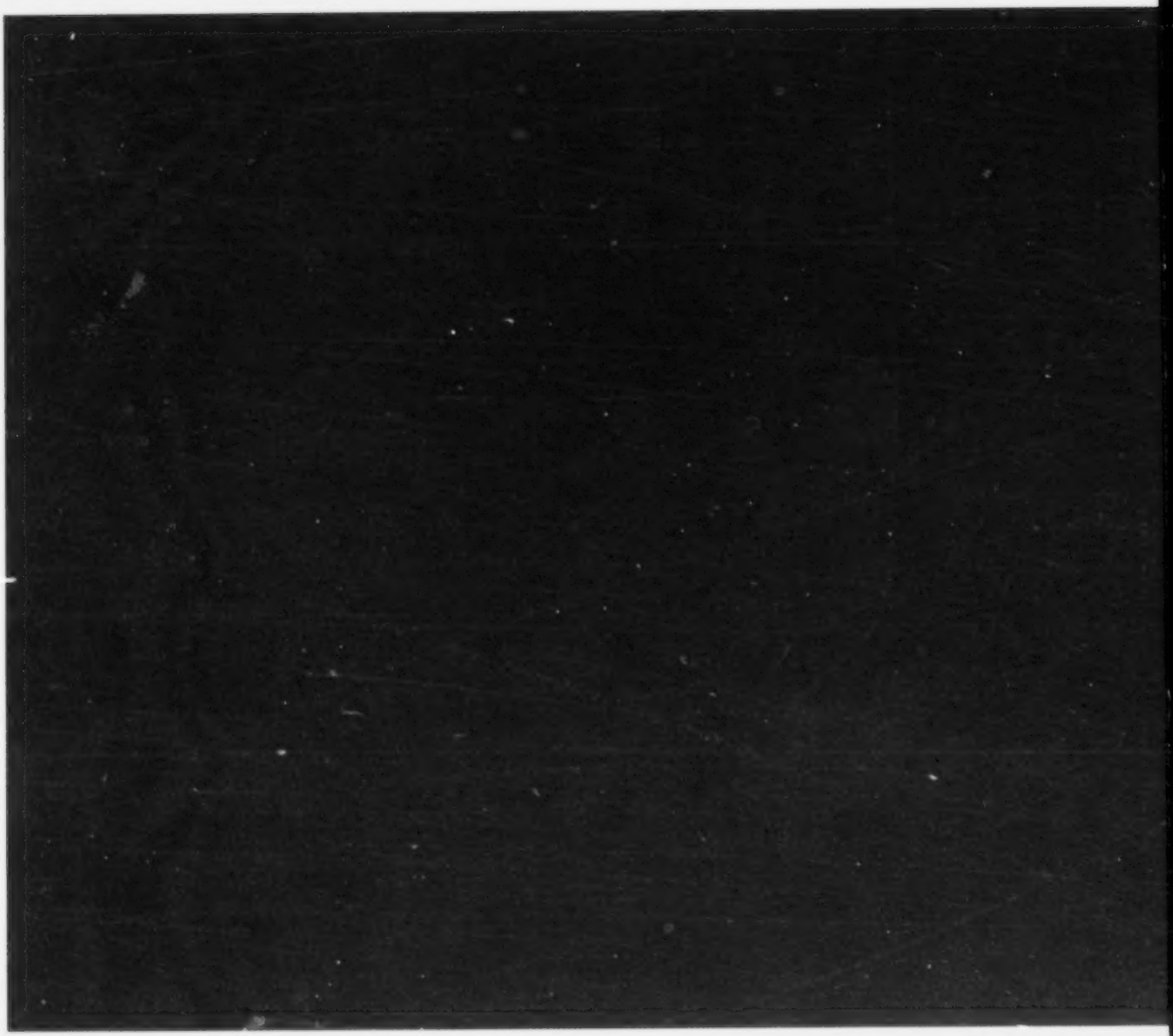
11. Ibid

12. The term 'anchor company' refers to a firm, usually large in scale, around which commercial activity occurs. In this context, it refers those companies that commission, finance and/or distribute Creative Cluster products.

13. PricewaterhouseCoopers, "Global Media and Entertainment Outlook: 2008 – 2012," p. 100.

14. Frascati Manual, OECD

15. PricewaterhouseCoopers, "Global Media and Entertainment Outlook: 2008-2012," p. 21.



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